Transportation Finance Issues: Revenue bonding

Revenue bonding for transportation

- The state issues transportation revenue bonds to finance a portion of major highway projects.
- The general policy has been to cover 55% of major highway project costs with revenue bonds, with state and federal funds paying the remaining costs. However, budgeted levels have varied within a range of 50% to 72%.

Transportation bonds enjoy a solid rating

- Currently, $1.1 billion of revenue bond debt is outstanding. Transportation bonds are not a debt of the state General Fund.
- Debt service is budgeted at $106 million in the current state fiscal year and increases by 7 to 10% annually. The interest rate on this debt averages 5%. Most of the debt in the form of 20-year bonds, with a smaller part held in short-term notes.
- The state pledges motor vehicle fees as a repayment source for transportation bondholders. As a result of this stable pledged revenue source, credit rating agencies rank the bonds very high at AA.

Issues and future trends

- Currently, about 10% of all Transportation Fund revenues are derived from bond proceeds. On the other hand, 8% of all Transportation Fund expenditures are for debt service.
- Principal and interest payments for bonds are a “first draw” on collections of vehicle registration fees.

- At current bonding levels, debt service will continue to grow, limiting dollars available for other programs.

- The Transportation Fund also pays about $5 million annually for the debt service on general obligation bonds issued for freight rail preservation and harbor improvements.

- The funding needs of southeast freeways will increase the need for bonding. WisDOT is investigating innovative ways to lower debt-carrying costs.